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C O N F I D E N T I A L SECTION 01 OF 02 DUBLIN 000545

SIPDIS

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TAGS: ECON EFIN ETRD PREL PGOV FI

SUBJECT: IRELAND'S SOCIAL PARTNERSHIP DEAL'S GOOD ENOUGH --
FOR NOW

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Classified By: PEO Chief Ted Pierce. Reasons 1.4 (b/d).

¶1. (C) Summary: On September 18 the parties to the Social Partnership talks (principally business groups and trade unions) agreed on a provisional deal that, among other things, would freeze public sector wages for the next 11 months. A leading business representative told us this is the best deal his membership could have hoped for given the tight economic situation. A representative from one of the leading unions agreed but added that trade union members will be expecting "a better deal" at the next round of talks in ¶2010. Both said that the current agreement is meant to get the nation through what looks to be a very sharp downturn for the Irish economy. It is now up to the government to "officially" present the draft to all concerned parties for an up-or-down vote. The American business community is watching the outcome of the talks closely because a breakdown of the social partnership model threatens Irish economic stability -- one of the key reasons for the huge inflow of U.S.-sourced investment. End summary.

Social Partnership -- What is it?

¶2. (U) The Social Partnership process describes the (roughly) triennial discussions to reach voluntary agreements on workplace-related topics, most importantly wages. The government, the business community (represented by the Irish Business and Employers Confederation (IBEC)), and the trade unions (represented, in part, by the Irish Congress of Trade Unions (ICTU)) participate in the talks. The first social partnership agreement was reached in 1987 and is often credited with being one of the sparks that ignited the Irish economic rebound. The government's role is to act as facilitator of the process and to draft and present the official agreement for final approval by the parties.

The Deal

¶3. (SBU) Under the terms of a deal covering the next 21 months, the participants in the social partnership talks agreed to halt public sector wage hikes for the 11 months, freeze private-sector, unionized workers pay for three months, and, according to the Irish Department of Enterprise, Trade, and Employment website, "set up a process to develop a national framework on the employment and rights of temporary agency workers." Given that the Irish government is expected to run a substantial budget deficit in 2008 and 2009, tax cuts, a key component of previous deals, are not included in this agreement.

The Business Community

¶4. (C) Econoff spoke to Danny McCoy, head of policy at IBEC

and lead negotiator for the business community, who said that this was about the best deal his constituency could have hoped for in the uncertain economic environment. Initially, union representatives wanted pay increases tied to "unrealistically high" rates of inflation but ultimately had to settle for a hike of just over four percent for the 21-month period. McCoy said this was slightly above what his membership had indicated it had budgeted for 2009.

¶ 15. (C) McCoy said that IBEC would be able to get its membership to back the agreement but was not sanguine that the private-sector unions could convince their members. He explained that there is much confusion about what was actually agreed on the pay deal and demonstrated -- in great detail -- that the public-sector pay pause would not actually kick in until late 2009. For this reason, he reasoned that the government would have little difficulty getting the public sector unions to fall in line.

¶ 16. (C) McCoy agreed that, as union membership declines, the social partnership model may become unnecessary in the near future. For now, though, he said that "the best thing about the current deal is that there was a deal" and that the markets would have reacted poorly to a collapse in negotiations. He warned that, as a sop to the unions, the government in the next few years, "will likely put restrictions on the use of agency (temporary) workers," to the detriment of Irish business. However, he doesn't foresee that the government will enact any kind of statutory union recognition -- a move strongly opposed by the American business community.

The Unions

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¶ 17. (C) Econoff met with Paul Sweeney, economic advisor to ICTU, who played a key role in the negotiations and shared with us a draft copy of the agreement. Like McCoy, Sweeney believes that this is as good a deal as the unions could have reached in the current economic environment. He worries, though, whether IBEC can get its membership to approve the document. While some union reps have complained about the pay freezes, Sweeney estimates that inflation will fall below the projections used during the negotiations and that real wages will be significantly higher as a result. He also noted that the document does not substantially address non-wage issues, many of which are very important to his membership.

¶ 18. (C) Sweeney said that the majority of the unions, with the exception of the "Trotskyites," will approve this deal. He said the worsening macroeconomic environment will make it easier to get approval because everybody wants certainty above all else. However, he noted that the union leadership intends to sell this as a shorter-than-customary transitional agreement designed to get the parties through a prolonged economic downturn in Ireland. Given this pitch, he said the unions will expect a better deal for labor in the next round of negotiations in 2010. In particular, he highlighted the issue of union recognition as being a key component of any future agreement and pointed out that the main opposition to this comes from the American Chamber of Commerce.

¶ 19. (C) Sweeney dodged the question of whether the social partnership process was anachronistic, only admitting that it would likely have to evolve into something different. He did say that the recent negotiations were cordial (all the main players know each other quite well) but tense. He had nothing but praise for the way former Prime Minister Bertie Ahern had handled previous negotiations and, in a mild swipe at Prime Minister Brian Cowen said that, "the breakdown of talks in August would not have happened if Bertie were still Taoiseach (Prime Minister)."

Comment

¶10. (C) We expect the agreement to be approved by all sides -- not because the sides are happy with everything included (or not included) but because going back to the negotiating table raises the risk that a deal will never get done. With the Irish financial sector taking a beating and an historic turnaround in the government's fiscal situation for the worse, the government will not want to add labor unrest to the mix. The U.S. business community is watching the process with keen interest because economic stability is one of the key attractions for locating in Ireland. A breakdown in the social partnership model threatens this stability and could increase the risk of investing here.

FOLEY